stelco

AR26

"A year of transition and revitalization..."

Annual Report 1984

Years ended December 31

The year at a glance

Dollars in millions except as indicated*		1984	1983	% Change Increase (Decrease)
Financial				
Sales	$	**2,401.2**	2,033.2	18
Income (Loss) before extraordinary items	$	**48.3**	(14.2)	
Per cent of sales	%	**2.0**	(0.7)	
Net Income (Loss)	$	**(3.3)**	(14.2)	
Income (Loss) per common share†				
Before extraordinary items	*$	**(.12)**	(2.32)	
After extraordinary items	*$	**(1.69)**	(2.32)	
Dividends declared – preferred	$	**52.2**	52.0	
– common	$	**33.6**	28.9	16
Per common share	*$	**1.00**	1.00	
Common shareholders' equity	$	**981.5**	981.0	
Per common share	*$	**29.11**	32.35	
Capital expenditures	$	**32.4**	44.9	(28)
Depreciation	$	**111.5**	103.8	7
Operations				
Materials and services bought and used‡	$	**1,343.3**	1,175.1	14
Total employment costs	$	**870.9**	782.6	11
Average number of employees		**20,612**	19,519	6
Raw steel produced – thousands of net tons		**5,145**	4,778	8
Steel shipments – thousands of net tons		**4,004**	3,598	11
Distribution of Total Revenue‡				
Purchase of goods, supplies and services	%	**53**	55	
Wages, salaries and employee benefits	%	**35**	38	
Depreciation	%	**5**	5	
Interest on long-term debt	%	**3**	3	
Federal, provincial and municipal taxes				
– income taxes	%	**—**	(2)	
– other taxes	%	**2**	2	
Dividends	%	**4**	4	
Earnings withdrawn from the business	%	**(2)**	(5)	
	%	**100**	100	

†After preferred dividends. (See Note 1 on page 19 for explanation of computation.)
‡Excludes extraordinary items.

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Toronto, Ontario, M5K 1J4

The Report at a Glance

About the Corporation

Formed in 1910, Stelco Inc. is Canada's foremost steelmaker, supplying some 35 percent of the nation's steel. Raw steel produced at two integrated and two mini-mill plants is rolled into plate, sheet, bar and rod products. Three separate business units make and market the Corporation's fastener and forging, wire and tubular products.

About the cover

Torch cutting continuous cast steel slabs at Lake Erie Works: Refinements made to LEW's steelmaking practices in 1984 resulted in the metallurgically consistent, clean steel required for such demanding end uses as beverage containers and critical automotive components.

1984: A Year of Transition and Revitalization

J. Peter Gordon, Chairman of the Board, and John D. Allan, President and Chief Executive Officer, head the management team that guided the Corporation through 1984, a year of transition. Improvements in volume and profit margins were the most important of Stelco's achievements for the year; 1984 also saw the Corporation setting the stage for the upgrading of Hilton Works, its main steel producing plant in Hamilton.

For Stelco, 1984 was a year of transition, during which a number of significant steps were taken towards the goals of restoring profitability and assuring a sound corporate foundation for future years.

The most significant achievement of the year was the posting of a $47 million pretax profit, exclusive of extraordinary items, after two years of consecutive losses. This was a positive swing of over $100 million from the pretax loss recorded in 1983.

"...a number of significant steps were taken..."

A number of key factors contributed to this improvement.

Increase in volume: Several steel markets served by Stelco were more active than in 1983. This, coupled with the early settlement of the Corporation's collective labour agreements, resulted in the expansion of product shipments to over 4 million tons or an increase of 11 percent vs. 1983.

Increase in overall price per ton: A much better product mix and some limited price increases, particularly for hot rolled, cold rolled and galvanized sheets, brought the sales value per ton of product shipped to $600, up from $565 per ton in both 1983 and 1982.

Increase in profit margins: Close control of operating expenses, i.e., the cost of production, shipping, administration and selling, in combination with the improved product mix, allowed the Corporation's average margins to reach $48 per shipped ton, a significant improvement over 1983 at $26 per ton and over 1982 at only $17 per ton.

	1984	1983	1982
Shipments	**4 004 000 tons**	3 598 000 tons	3 575 000 tons
Sales	**$2 401 million**	$2 033 million	$2 020 million
Sales Price/Ton	**$ 600**	$ 565	$ 565
Operating Expense	**$2 209 million**	$1 938 million	$1 960 million
Expense/Ton	**$ 552**	$ 539	$ 548
Sales Revenue and Equity Income less Operating Expense	**$ 204 million**	$ 94 million	$ 58 million
Interest and Depreciation	**$ 157 million**	$ 159 million	$ 164 million
Pretax profit (loss)	**$ 47 million**	$ (65) million	$ (106) million

A number of factors continued to impede the earnings growth of the Corporation. The most significant of these were as follows:

High cost of semi-finished steel at Hilton Works: The cost of manufacturing slabs and billets, i.e., the semi-finished steel needed to feed the Corporation's rolling mills, was significantly higher at Hilton Works than at Lake Erie Works, McMaster Works and Edmonton Works. This is primarily due to the absence of the continuous casting process at Hilton Works. A major program was initiated in 1984 to correct this deficiency.

High cost of iron ore: It became evident during 1984 that the Corporation's cash flow could be improved by reducing significantly the overall cost of the supply of iron ore pellets needed to feed the blast furnaces at Hilton Works and Lake Erie Works. A program was developed to achieve cost savings by regrouping the sources of iron ore pellet supply within Canada which involved the shutdown of the Griffith Mine, and to renegotiate the contractual arrangements applicable to several U.S. ore properties in order to provide greater flexibility in operations.

"... excess capacity ... fostered fierce price competition."

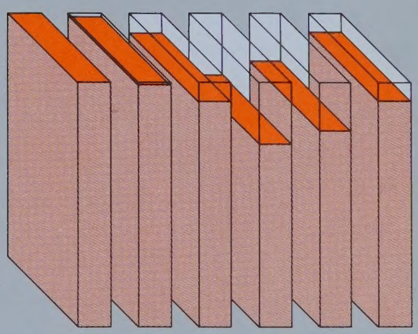
Low volume and margins – plate: One of Stelco's major product lines is plate, used mainly for heavy construction and large diameter pipe. Because there was little improvement in demand for steel plate in 1984 as compared with 1983, Stelco's 148-inch plate mill at Hilton Works operated at an average of 50 percent of its capacity during 1984. At the same time, excess capacity in the industry, both domestic and foreign, fostered fierce price competition. This combination of affairs resulted in very slim margins on this product line throughout the year. A substantial increase in domestic demand for plate and plate skelp for large diameter pipe will be needed to help improve this situation.

Economic and Steel Environments

The economic environment in which Stelco operated in 1984 was generally improved over 1983, but the recovery was uneven in various steel markets.

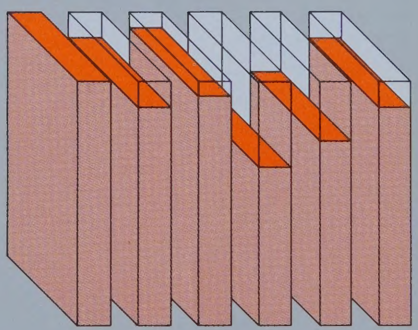
Since pricing subsidies and excessive steel producing capacity remained the order of the day in international markets, it was not possible for Stelco to increase overseas export sales. Protectionist action was triggered in the U.S. market as a result of pressure throughout the year from imports which continued to represent in excess of 25 percent of U.S. domestic steel consumption.

Canadian Raw Steel Production



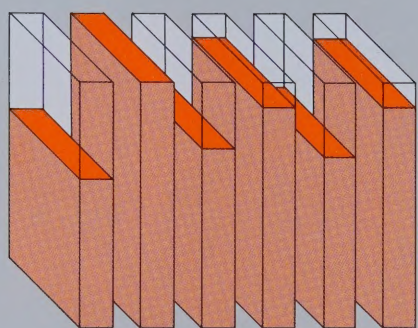
	1979	1980	1981	1982	1983	1984
million tons	17.5	17.3	16.1	13.0	14.0	16.1

Canadian Mill Shipments – Domestic



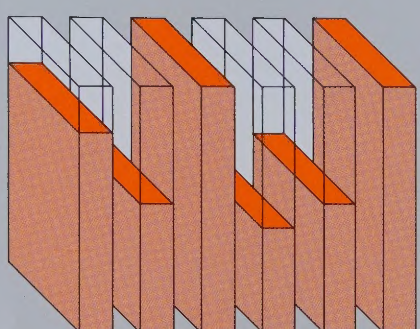
	1979	1980	1981	1982	1983	1984
million tons	11.7	10.5	11.0	7.6	8.9	10.5

Canadian Mill Exports – Rolled Steel Products



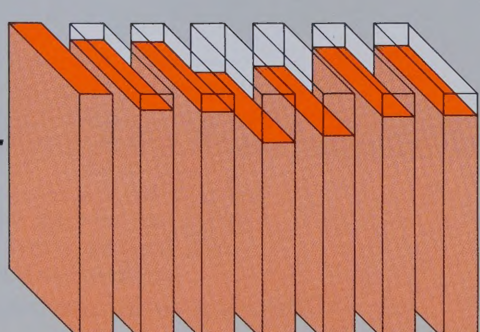
	1979	1980	1981	1982	1983	1984
million tons	1.8	3.0	2.2	2.7	2.1	2.7

Canadian Imports – Rolled Steel Products



	1979	1980	1981	1982	1983	1984
million tons	1.7	1.1	2.1	0.9	1.1	2.1

Western World Apparent Steel Consumption



	1979	1980	1981	1982	1983	1984	1985*
million tons	532	502	495	427	442	483	486

Source: International Iron and Steel Institute

*Forecast

The Canadian economy was carried forward predominantly by the automotive industry. Most other steel consuming sectors remained depressed in the face of continuing economic problems, including high interest rates and excess manufacturing capacity. The construction, resource and farm machinery industries, in particular, were depressed. Capital spending, other than for machinery and equipment, was generally at a low level.

"The economic outlook for 1985 remains relatively positive . . ."

Towards the end of the year, more positive signs emerged on the economic front. A significant decline in interest rates took place and the rate of inflation was the lowest in 13 years. At this time, the economic outlook for 1985 remains relatively positive as continued strength is expected in the automotive industry and there are indications of some returning strength in business spending.

The accompanying charts provide historical and projected data for the Canadian and western world steel industries.

Corporate Emphasis

Because of continuing excess capacity in the domestic and international steel industries, it has become evident that at least in the near term it is not possible to increase profit margins significantly through price increases.

As management evolved specific strategies throughout 1984 to improve profitability, emphasis was shifted to two key objectives, namely:

- ☐ *achieving significant decreases in Stelco's corporate operating expenses* and
- ☐ *achieving major improvements in the quality of Stelco products.*

To achieve the first of these objectives, Stelco will seek to decrease operating expenses through concentrating capital spending on projects with fast payback periods, organizational restructuring and continuing rationalization of facilities, elimination of marginal product lines and improved productivity.

Quality has become a major selling tool in today's markets. Also "making it right the first time" can reduce operating costs significantly. This entails constant improvement in workmanship, procedures and facilities to ensure that, at each stage of manufacture, products with consistently high quality are made and delivered on time.

Progress in 1984

Corporate restructuring: Considerable progress in achieving long-term objectives was made in 1984. Among the most important was a corporate restructuring that clearly separates the production and sales of rolled steel products from the manufacture and marketing of finished steel products.

Stelco Inc. now consists of two integrated steelmaking plants in Ontario: Hilton Works in Hamilton, and Lake Erie Works at Nanticoke; and two "mini mill" facilities: Edmonton Steel Works in Edmonton, Alberta, and McMaster Works in Contrecoeur, Quebec. Within the Corporation are three strategic business units, operating as separate profit centres, making and selling finished products. The first of these, Stelco Fastener and Forging Company, was organized in 1983; the other two units, Stelco Wire Products Company and Stelco Pipe and Tube Company, were formed in 1984.

"... three strategic business units, operating as separate profit centres ..."

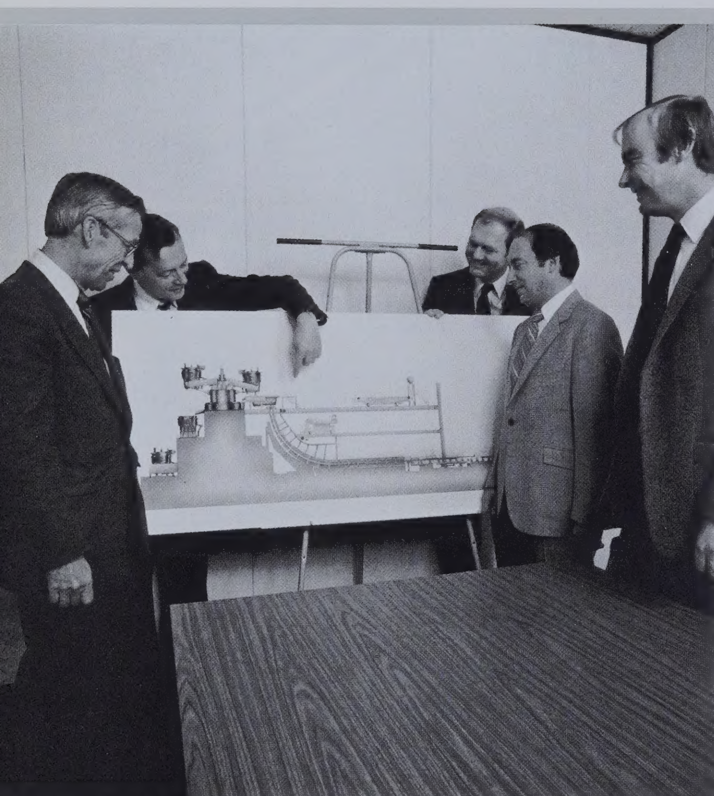
In recent years, Stelco's finished products have come under attack from aggressive, single-line competitors. The separate, autonomous business units established will help the Corporation to meet this competition. These three groups met with favourable customer reaction and employee enthusiasm.

Steelmaking results: In 1984, Stelco's Eastern Region steelmaking operation, McMaster Works, continued to provide the low cost, high quality steel required to compete in the rod and bar market. The addition of jet burners in the electric furnace and the installation of a turret system in the steel shop to allow sequence casting have led to improved productivity and output.

In Western Canada, the semi-finished steel billets produced at Edmonton Steel Works are of a sufficiently high quality to permit an expansion of their application to such "auto critical" parts as spring flats.

Steel output at Lake Erie Works increased steadily throughout the year and a record 1,476,000 tons were produced in 1984. The 80-inch hot strip mill also made substantial progress in expanding product mix capabilities. Experiments with charging of hot slabs directly from the caster to the mill's furnace have been successful, thus offering increased output potential and lower costs.

Fastener quality control: At the Brantford plant of the recently-formed Stelco Fastener and Forging Company, G.W.R. Bowlby, Stelco Group Vice President (left) and D.B. Morrow, General Manager, Fastener and Forging Company (centre) discuss the recording of SPC data with Ron Dagg, Heat Treat Operator.



Key caster personnel: Studying an elevation of the Curved-Mold Continuous Slab Caster that will be installed at Hilton Works are (left to right) J.E. Hood, Group Vice President, W.J. Priestner, Chief Engineer — Major Projects Group, H.J. Lepp, General Engineering Manager, R. Leblanc, Divisional Superintendent, Steelmaking, and R.J. Milbourne, General Works Manager, Hilton Works.

Hilton Works upgrading: At Hilton Works, the Corporation's main steel plant, many individual units continued to perform well in 1984. One area of concern is the higher cost of semi-finished billets and slabs produced at this Works when compared with other internal corporate sources, and steps are being taken to correct this situation. In September, the Board of Directors gave approval in principle for a major upgrading of the plant's steelmaking facilities, the installation of continuous casters and the completion of the revamp of No. 1 bar mill. The Hilton Works modernization program will represent an investment of approximately $350 million.

In December, Stelco issued a letter of intent to Mitsui & Co. allowing for negotiations leading to the execution and delivery of a loan agreement and purchase contract, the latter concerning a continuous slab casting machine and a continuous slab/bloom casting machine to be installed at Hilton Works.

Raw materials rationalization: As part of the Corporation's drive to reduce costs in all areas, Stelco's coal and iron ore requirements came under intense scrutiny in 1984. In November, Stelco announced that it would permanently close its wholly-owned Griffith Iron Ore Mine at Red Lake, Ontario, in April, 1985. The closure date was subsequently extended by one year, to give mine employees and the communities of Ear Falls and Red Lake more time to adjust. In extending the date, the Corporation reiterated that in addition to implementing appropriate termination arrangements with mine employees, it will cooperate fully with all levels of government to further alleviate the economic impact of the mine closure on surrounding communities.

"The decision to close the Griffith Mine forms part of a comprehensive strategy..."

The decision to close the Griffith Mine forms part of a comprehensive strategy of cost reduction and rationalization which Stelco is implementing to improve its financial earnings base and thus be in a stronger position to carry out the major upgrading of Hilton Works. The decision came after studies clearly indicated that the Griffith Mine had the highest delivered unit costs of any of Stelco's ore-producing facilities. The reasons for this include the amount of material that must be mined to produce a ton of product, the relatively small size of the operation which precludes the achievement of economies of scale, the rail transportation system and the distance of the mine from water transportation. Moreover, the high alkali content and low reducibility of the mine's pellets increase the hot metal costs at Stelco's basic steelmaking facilities. The objective of maintaining the traditional proportion of Canadian ore in Stelco's annual requirements will involve increased reliance on iron ore sources in Labrador and Quebec.

Facilities rationalization: Stelco in 1984 continued its program of facility and product consolidation and rationalization. The first phase of the closure of the Canada Works plant in Hamilton was carried out during the year, and phase two will be completed in 1986.

"... continued its program of facility and product consolidation and rationalization."

Operations at Stelco Fabricators Limited, the Corporation's plate fabricating subsidiary in Regina, Saskatchewan, were discontinued in November, and its assets will be sold. Stelfab has been affected adversely by the slump in the Canadian capital construction sector, and the facility operated at only about 30 per cent of capacity last year. A study of Stelco's role in the fabrication business concluded that Stelfab was not compatible with the nature of Stelco's operations or long term objectives.

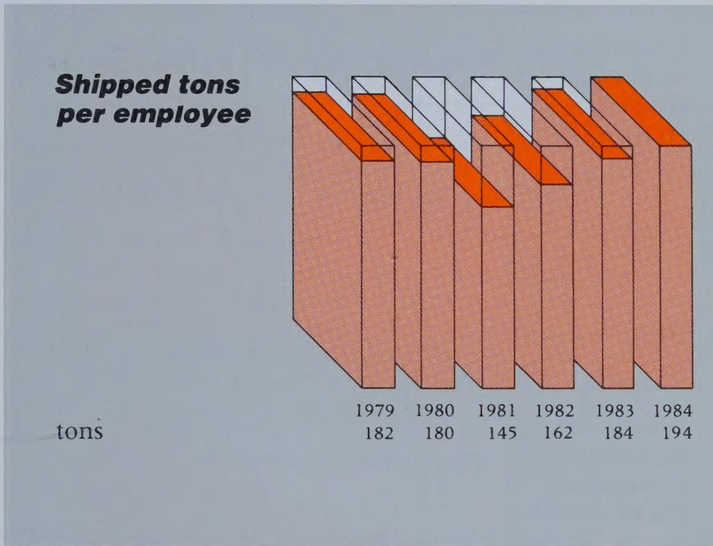
Stelco Wire Products Company announced the permanent closing of its Quebec fence erecting facility, Durastal Installations Limitée. Factors affecting this decision included the economic slump, a major shrinkage in the industrial fence market and the cost advantage of independent erectors.

In all cases, Stelco is making concerted efforts to minimize the effects of these facility closures on employees.

Quality and service programs: Early in the year, a Quality and Service Committee was formed to monitor the Corporation's quality and service performance and to recommend actions or programs to keep Stelco ahead of its competitors. During 1984, this committee promoted quality awareness, studied the costs related to quality improvement and determined employee training needs. Stelco's senior managers, including Executive Officers, attended seminars on the uses and importance of new quality assurance techniques. This program is being extended throughout the Corporation.

In October, the quality philosophy of the Corporation was affirmed this way: *"We at Stelco are committed to quality as our first priority. This means constant improvement in workmanship, procedures and facilities to ensure, at each stage in manufacture, that we make and deliver products with consistent high quality. We will sustain this commitment by the total involvement and in-depth training of all Stelco people, with particular emphasis on the use of advanced technology, statistical process control and other quality management techniques. Our goal, which we share with our suppliers, is to be the quality leader in the markets we serve."*

Statistical process control, which was introduced in Stelco's finishing works a few years ago, is being implemented throughout the entire Corporation. Stelco's steelmaking units, rolling mills and iron ore properties are now applying statistical methods to control processes and to identify situations where change is required.

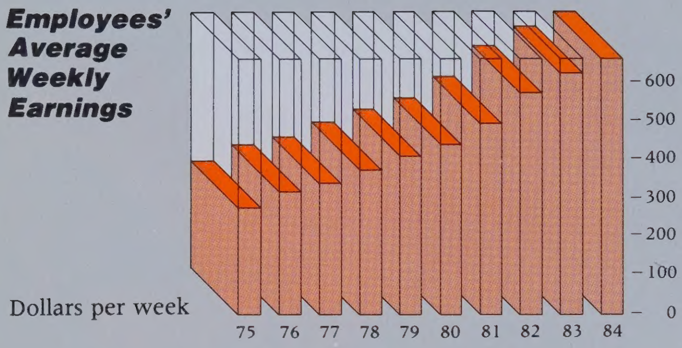


Research and development: A new corporate quality and technology group was established in 1984 to coordinate the activities of Stelco's Research, Metallurgical, Engineering and Technical Service Departments. Stelco also continued to work closely with other steel firms, and with such industry organizations as the American Iron and Steel Institute, on joint or cooperative research programs. Much of this effort was geared to monitoring competing materials, particularly aluminum and plastics.

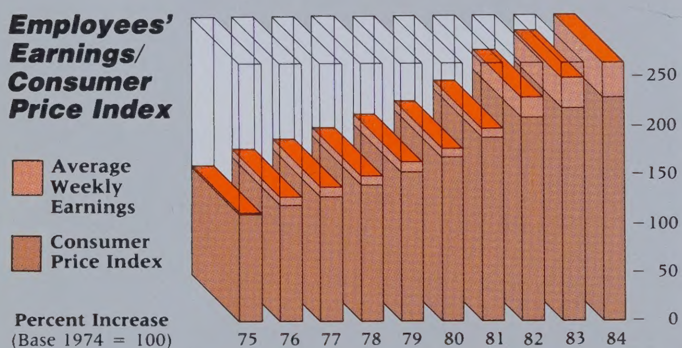
A noteworthy example of applied research at Stelco is the successful development of drawn and ironed (D&I) tinplate, a material used to make two-piece beverage containers that compete with those produced from aluminum. Stelco's technical work led to the incorporation of unique gauge control technology on the Hilton Works 5-stand cold mill to allow the production of very close tolerance sheet in coils. Steelmaking and casting practices at Lake Erie Works were altered to produce slab cast steel with consistently high quality and minimal inclusions. During 1984, Stelco perfected this production process and became the leading domestic supplier of this very sophisticated product. This illustrates the emphasis the Corporation places on continuing development of modern steels and steel products to compete with other materials and thus preserve and enhance market participation.

Integrated planning with customers: During the year, Stelco continued to work with major users of rolled steel products and introduced the concept of customer integrated planning to a number of customers. The activity keys on customer concerns, such as inventory levels, product development, technical support and computerized communications. It is intended that this program will be broadened in the years ahead.

Employees' Average Weekly Earnings



Employees' Earnings/ Consumer Price Index



Employment Costs

Dollars in thousands	1984	1983
Wages and Salaries		
For time worked	**$645,604**	$579,253
For vacations and statutory holidays not worked	**65,955**	61,106
	$711,559	$640,359
Supplementary Employment Benefits		
Pension costs	**$ 61,733**	$ 64,494
Group insurance plans and other benefits	**62,190**	50,617
Unemployment insurance and worker's compensation	**35,456**	27,081
	$159,379	$142,192
Total Employment Costs	**$870,938**	$782,551
Average Number of Employees	**20,612**	19,519
Employee Benefits		
Number of pensioners at year end	**7,433**	6,744
Pensions paid during the year	**$ 50,958**	$ 44,312
Total life insurance at year end	**$848,276**	$817,885
Total death benefits paid during the year	**$ 3,993**	$ 3,971

Productivity emphasis: In 1984, Stelco continued its drive to improve productivity. Progress in this regard is best illustrated by measuring steel tons shipped per employee, as in the chart on page 9.

The average number of employees in 1984 was 20,612, compared with 19,519 in 1983 and 22,104 in 1982. Permanent salaried personnel numbered 4,708 at the end of 1984, compared with a high of 6,000 in mid 1981. Voluntary early retirement programs for salaried employees were continued in 1984, and toward the end of the year a significant number of bargaining unit employees participated in a similar program.

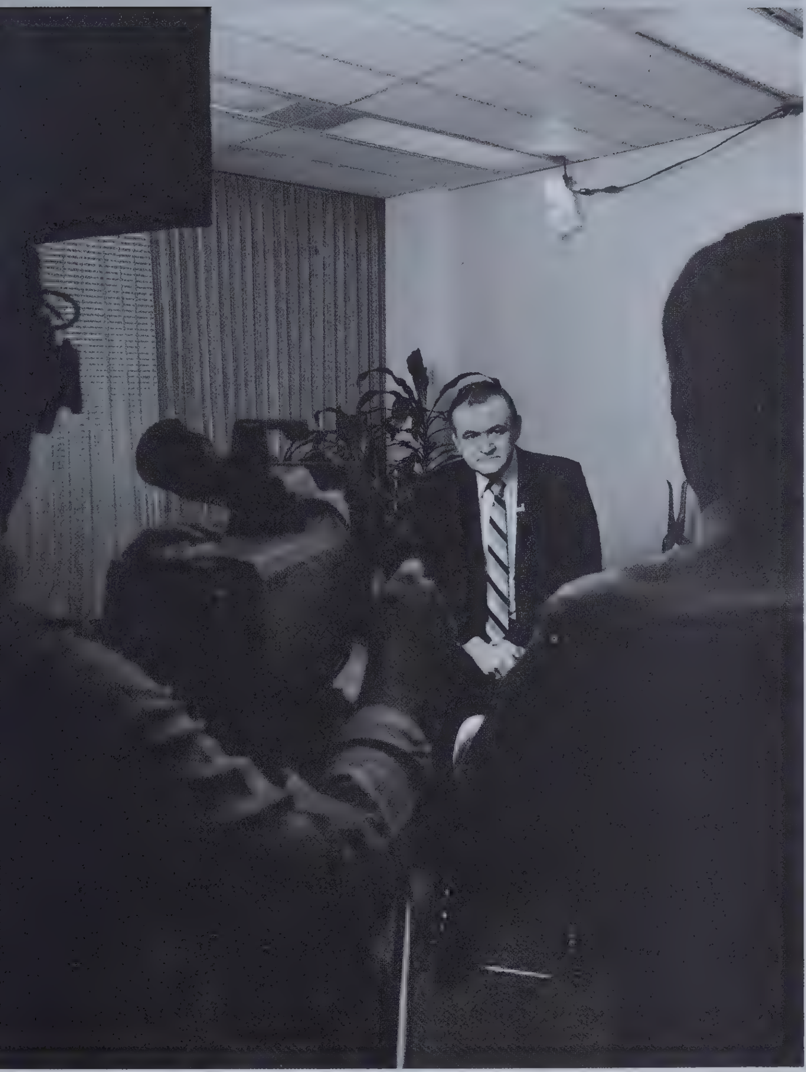
Early labour contract agreement: One of the most important milestones in the 38-year relationship between the Corporation and its employees represented by the United Steelworkers of America occurred early in 1984 as employees approved a new collective agreement well in advance of the existing contract's expiry date of July 31. This assured an uninterrupted supply of steel to customers, and demonstrated the union's and employees' awareness and understanding of the competition Stelco is facing. The early contract provided an element of job security and it helped the Corporation retain business, as many customers have tended to look elsewhere for assurance of their steel requirements in negotiation years. Other unions representing employees in some of the Corporation's finishing works also agreed to terms paralleling those negotiated with the U.S.W.A.

A unique feature of the three year agreement is that it contains arrangements for discussion and implementation of a profit sharing plan.

A share participation plan for the Corporation's salaried staff was also initiated during the year.

Broadened training and communication: The use of an interaction management training program geared to expand the interpersonal skills of managers and introduced several years ago in Stelco's finishing plants was extended in 1984 to include some 300 supervisory personnel. As well, in 1985, it is expected that up to 3,000 Stelco employees will receive "hands-on" training in the use of statistical process control techniques.

During the year, several steps were taken to improve communications between Stelco and its employees and other key constituencies. Internally produced videotapes were produced on a regular basis in 1984 to convey news of Stelco developments to all employees, including status reports from the President and senior officers. Plant and regional newspapers were redesigned to present more information of local interest. A new magazine, *Stelco Today*, was created for employees, and is also distributed externally.



Video communications: Throughout Stelco there is an increasing use of video as a means of training employees and keeping them informed of corporate developments. Here R.E. Heneault, Group Vice President, prepares for a presentation to salaried staff and bargaining unit employees.

Significant Marketplace Issues

Many of the most difficult challenges facing Stelco are in the marketplace. The Corporation's response to these crucial issues will have significant bearing on its future.

Access to U.S. Market

In 1984 the U.S. government, yielding to pressure by the American steel industry, passed legislation in the form of *The Trade and Tariff Act of 1984*, which provided for the negotiation of voluntary restraint agreements (VRAs) with a number of foreign countries to curtail the volume of imported steel products. It was concluded that these countries had caused the U.S. steel industry a great deal of injury through unfair trading practices and major surges of tonnage.

Representatives of the Canadian steel industry spent much of 1984 lobbying and testifying in Washington, in response to a petition introduced by Bethlehem Steel and the United Steelworkers of America, that global import constraints would not be appropriate to the U.S. steel import problem. Rather, the proper solution should focus on the surge in unfair trade, while allowing fair trade from some countries, including Canada, to continue. To date, this argument has proved successful and Canada has not been subject to a VRA. However, over the next five years, monitoring by the U.S. will continue and further agreements will be initiated to control new surges of imports that result from subsidized or other unfair or restrictive trade practices. Thus, if Canada continues to trade fairly in steel, while keeping an open market for U.S. steel, access to the U.S. market should continue unimpeded.

Imports into Canada

In 1984, imports of rolled steel products into Canada represented 14 percent of domestic consumption. In previous years, import penetration had been 10 to 12 percent of apparent domestic consumption.

The Canadian market is as open to unfair imports as was the U.S. market and the danger now exists that, because of U.S. restraint agreements, foreign countries will look to Canada as the next best alternative market in which to dispose of excess production. Another dimension of the current concern relates to the potential for diversion of imported steel through Canada to the U.S. in either original or upgraded form.

The Canadian steel industry is working closely with the federal government on the matter of steel trade and continues to initiate dumping complaints. It is critical for the industry and its customers that the potential for severe injury be recognized and be dealt with promptly and effectively, in order to avoid a repeat of the U.S. situation here in Canada.

Market retention a priority: Developing new steels to combat other materials is a vital part of the Corporation's drive to retain its share of key markets. From left to right: D.A. Woodward, Vice-President — Sales, K. Coles, Vice-President — Manufacturing and L.C. McLean, Vice-President — Quality and Technology, discuss the production of drawn and ironed beverage containers made from can stock specially developed by Stelco.

Competitive Materials

The challenge to steel by competitive materials is not a new one but it is gaining momentum. An example of this trend is the degree to which aluminum has come to dominate the market for beverage cans in the U.S. and the inroads it is seeking to make, along with plastics, in the automotive industry. Currently, the Ontario market for steel beverage cans is at stake. Every effort is being made, in conjunction with the can manufacturers, to retain steel's share through the introduction of the modern two-piece steel can (light weight, recyclable, fast cooling) utilizing the new D & I tinplate.

The steel industry's task is to take the offensive and continue to develop steel products that can compete head-on through better corrosion resistance, lighter weight and lower costs. Stelco is stressing research and development work of this type and the Corporation's emphasis on quality is a key part of this strategy.

Market Opportunities

While there is evidence of continued weakness or even shrinkage in some Canadian steel markets such as construction, it is also apparent that there will be expansion of some steel-consuming sectors if the proper environment for manufacturing investment is fostered by Canadian governments. The recently announced manufacturing plant investments in Canada by American and foreign automakers are healthy signs. Use of large tonnages of high quality, zinc coated sheet steel for exposed auto body parts will figure prominently in the operations of those plants and Stelco is preparing now to take full advantage of this new business opportunity.

A 75-Year Tradition

On June 8, 1985, Stelco will observe its 75th anniversary. This significant milestone will be marked by the establishment of two employee-related programs.

The first is the Stelco Scholarship Program designed to recognize scholastic achievement of and provide financial assistance to the children of employees of Stelco as they enter their first year of post secondary education. The second is the Stelco Community Service Award Program which will honour exceptional contributions by Stelco people to voluntary community activities.

In addition, special issues of Stelco's publications will reflect on the Corporation's contribution to the country.

Stelco's 75th anniversary year reminds us that throughout its history the Corporation has had to adapt to all types of economic circumstances in order to achieve such longevity. The current steps being taken to revitalize the Corporation in response to the recession of 1982-1983 are a continuation of this adaptability and in keeping with all traditions which have made Stelco Canada's foremost steelmaker.

Directors

In keeping with the retirement rules for Directors of the Corporation, The Honourable Ernest C. Manning retired from the Board on April 30, 1984 and Mr. J. Douglas Gibson and Mr. D. Ross McMaster on December 31, 1984. Mr. Frederick C. Mannix did not stand for re-election to the Board on April 30 because of ill health.

Senator Manning was elected to the Board in 1969 and brought to Stelco an understanding of both the public and private sectors, an appreciation of the point of view of Western Canada and a familiarity with the oil and gas business. Canada has been well served by his distinguished career in politics particularly as Premier of Alberta.

Mr. Mannix joined the Board in 1967 and had a valued understanding of the construction business through his firm which is prominent in many types of construction including pipelines, transportation and power and resource developments. He is the first living person to be inducted into the Junior Achievement Business Hall of Fame.

Mr. Gibson gave Stelco 16 years of outstanding service as a Director during which he served as a member of the Executive Committee and provided excellent guidance to the Pension Committee. His broad background and wide experience in every phase of the Canadian economy made him a valued member of the Board.

Mr. McMaster had been a member of the Board since 1962 when he succeeded his father who had served as a Director, as well as President and Chairman of Stelco. A member of the McMaster family has been associated with Stelco or one of its predecessor companies since 1873. Few people have had a greater interest in or been more supportive of Stelco and its management. Stelco has benefited greatly from the contributions of the McMaster family. The retirement of Mr. D. Ross McMaster marks a milestone in the life of the Corporation.

The contribution and service of these gentlemen during a significant period in the Corporation's history is sincerely appreciated.

To fill these vacancies, Mr. J. Howard Macdonald, Chairman and Chief Executive Officer, Dome Petroleum Limited; Mr. J. Dean Muncaster, President and Chief Executive Officer, Canadian Tire Corporation, Limited; Mr. Marshall M. Williams, Chairman, President and Chief Executive Officer, TransAlta Utilities Corporation; and Mr. L. R. Wilson, President and Chief Executive Officer, Redpath Industries Limited, were elected Directors.

Executive Changes

At the Directors' Meeting, following the Annual Meeting on April 30, 1984, Mr. J. P. Gordon was appointed Chairman of the Board and Mr. J. D. Allan, President and Chief Executive Officer.

In January, 1984, Mr. A. J. Harris, Vice-President, Engineering, Research and Purchasing, retired after 43 years of valued service to the Corporation. He discharged his responsibilities with great distinction throughout his career, particularly in the planning and construction of Lake Erie Works.

Subsequent to Mr. Harris' retirement, changes were made to Stelco's senior management structure which involved the appointment of the following three Group Vice Presidents: Mr. G. W. R. Bowlby with responsibility for all sales and marketing activities and for Stelco Fastener and Forging Company, Stelco Wire Products Company and Stelco Pipe and Tube Company; Mr. J. E. Hood with responsibility for all manufacturing operations of the Corporation including Quality and Technology and Raw Materials; Mr. R. E. Heneault with responsibility for the general administration functions including the Eastern and Western Regions and a newly defined portfolio of Corporate Affairs and Strategic Planning.

At the same time, Mr. L. C. McLean was appointed Vice-President – Quality and Technology, while Mr. F. A. Hoyle was appointed Vice-President – Manufacturing Services and Mr. K. Coles, Vice-President – Manufacturing, assumed responsibility for operating facilities.

Following 38 years of distinguished service to Stelco, Mr. G. H. G. Layt, Senior Vice-President, retired on November 30, 1984. He was an outstanding leader throughout all facets of his career, particularly in the manufacturing area. Mr. Layt achieved world-wide recognition and respect within the international steel community for his knowledge and professionalism.

The dedicated efforts of employees are deeply appreciated by the Directors and Officers as is the support of customers, suppliers and shareholders.

Gordon J D Allan

J. P. Gordon
Chairman

J. D. Allan
President and Chief Executive Officer

Financial Review

The following discussion of operating results and financial position of the Corporation should be read in conjunction with the consolidated financial statements and related notes.

As indicated in Note 2 to the Consolidated Financial Statements the Corporation has changed its method of accounting for foreign currencies and for investment tax credits to conform with recent pronouncements by the Canadian Institute of Chartered Accountants (C.I.C.A.). The changes have been made on a prospective basis and the impact of the change in 1984 profits as indicated in Note 2 is relatively small.

Sales

Sales revenue was $2,401.2 million, up 18% from the $2033.2 million revenue in 1983.

The increased revenue is primarily attributable to the higher level of steel shipments, a number of modest selling price increases and some improvement in the mix of products sold.

Net income (loss)

The consolidated income before extraordinary items, amounted to $48.3 million. This compares to a net loss of $14.2 million in 1983. After deducting preferred dividends the loss per common share was $.12 compared to a loss per common share of $2.32 in 1983.

Recognition of the extraordinary items associated with the planned shutdown of the facilities described in Note 4 shows a net loss for 1984 of $3.3 million which, after dividends on preferred shares, resulted in a loss of $1.69 per common share.

Dividends

As in 1983, the common share dividend rate was 25¢ per share per quarter. The dividends declared on the Series A and B Convertible Common Shares amounted to $33.6 million in 1984 compared to $28.9 million in 1983. The increase reflects the dividends on 3.1 million common shares issued in March 1984, the effect of the full year's dividends on the 5.4 million common shares issued April 12, 1983 and the relatively minor impact of additional common shares issued at various times including those issued under the terms of the Employee Stock Investment Plan and the Share Participation Plan.

Dividends declared in 1984 on all series of preferred shares totalled $52.2 million relatively unchanged from the $52.0 million declared in 1983.

Capital Structure

On March 6, 1984 the Corporation sold for public issue 3,100,000 Series A Convertible Common Shares at $27.50 per share for a total of $85,250,000. The net proceeds of the issue are invested in short term securities until required for general corporate purposes or to finance capital projects.

Under terms of the Employee Stock Investment Plan described in Note 15 to the Consolidated Financial Statements, 36,670 Series A Convertible Common Shares were issued in December, 1984 for a total consideration of $742,568.

Under terms of the Stelco Share Participation Plan a total of 227,082 Series A Convertible Common Shares were issued during the year for a total consideration of $5,219,256. See Note 16 for a summary of this plan and the price and amount of the various issues.

Other changes to the capital structure were minimal being associated with the purchase and cancellation of preferred shares in accordance with the terms of the various issues, the exercise of common share purchase warrants and the declaration of stock dividends applicable to Series B Convertible Common Shares. See Note 14 to the Consolidated Financial Statements for details of the various issues.

Capital Spending

Capital spending continued to be constrained throughout the year in the interest of conserving cash. Capital spending was $32.4 million, compared to $44.9 million spent in 1983. Included in the 1984 spending is $34.8 million for manufacturing and mining facilities and the recovery of $2.4 million from long-term intercorporate investments.

The spending, with the exception of the Hot Strip Mill at Lake Erie Works and the sequence casting facilities at McMaster Works, involved non growth items such as environmental control projects, mobile equipment replacements, and projects involving quality improvement and cost savings.

Intercorporate Investments

At the end of 1984 long-term intercorporate investments amounted to $65.5 million, a decrease of $12.6 million during the year. The decrease results from a reduction in the carrying value of long-term intercorporate investments caused by the translation of foreign debt at year end rates of exchange (see Note 2) which exceeded the increase in their carrying value due to additional investments and the Corporation's share of their earnings (net of dividends received). Note 9 to the Consolidated Financial Statements provides additional data on these intercorporate investments.

Cash Flow

In 1984 the Corporation adopted the cash flow basis as a more meaningful way of reporting changes in financial position. Comparative figures for 1983 have been reclassified to conform with the presentation used in the Consolidated Statement of Cash Flow on page 18 of this report. In these statements short term investments are treated as cash.

Cash from Operations

As indicated in this statement net cash from operations provided $9.5 million. The improved income before extraordinary items and other operating sources of cash were largely offset by the increased investment in operating elements of working capital. The operating elements of working capital changed as follows:

☐ Accounts receivable increased $24.0 million as a result of the higher sales level in 1984.

☐ Inventories increased $78.1 million during the year reflecting a buildup of steel stocks and some raw materials, mainly iron ore.

☐ Accounts payable declined $38.3 million reflecting the curtailed levels of capital spending in the latter part of 1984 and a lower liability associated with the provisions for blast furnace relines.

☐ The liability for income and other taxes increased $7.5 million reflecting the improved profit in 1984. See Note 5 for components of consolidated income taxes.

Cash from Financing Activities

Proceeds from the sale and leaseback of fixed assets, explained in Note 8, accounted for $50 million and the net proceeds from the sale of common shares accounted for $87.2 million. These inflows were offset by $23.6 million reduction of long-term debt and $1.5 million purchase of preferred shares. These financing activities resulted in a net cash inflow of $112.0 million.

A more detailed description of share transactions is given under the heading Capital Structure in this financial review.

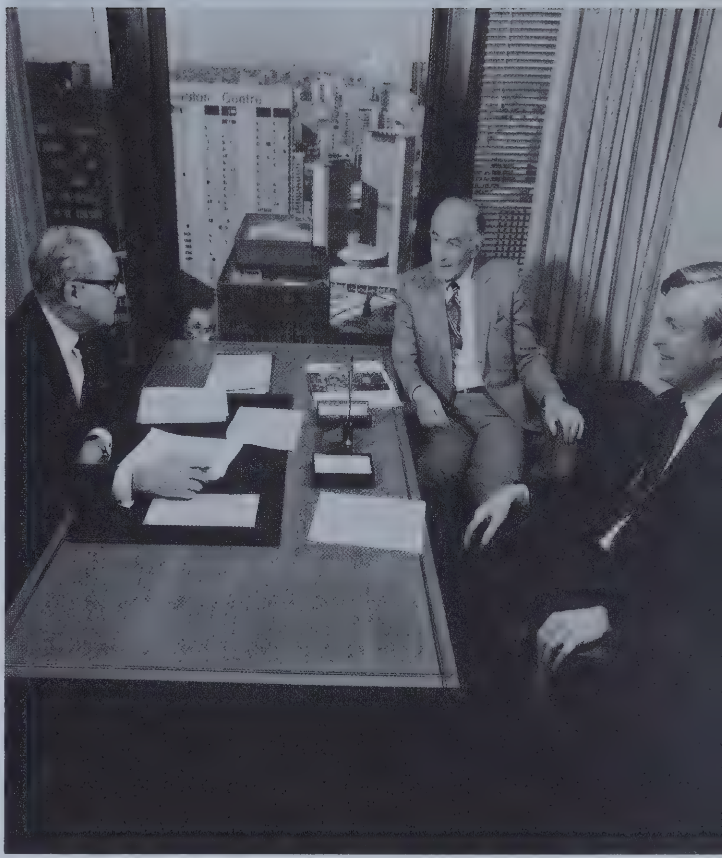
Other Uses of Cash

Other uses of cash totalled $84.8 million, primarily due to the payment of $83.9 million cash dividends described previously in this financial review.

In summary, these cash flows resulted in a net cash increase of $36.7 million during the year. At December 31, 1984 cash and short-term investments totalled $137.5 million.

Inflation

Inflation in 1984 was approximately 4% as measured by Statistics Canada's Price Deflator for Gross National Product. This is down from the 6% inflation rate experienced in 1983. However because inflation's impact is cumulative, Stelco's historical cost based financial statements continue to be seriously distorted. Depreciation, based on the reproduction cost of the Corporation's fixed assets, calculated using Statistics Canada's Implicit Price Indices for Non-Residential Construction and Machinery and Equipment is estimated to exceed the reported depreciation based on historical cost by $100 million. Similarly, it is estimated that Stelco's investment in all inventories increased $18 million due to inflation in 1984. While acknowledging that other factors could be considered, it is management's view that the above two amounts give a simple yet reasonable indication of the impact of the effect of changing prices on Stelco's operations.



Caster economics: Discussing financial bids relative to the forthcoming caster program at Hilton Works, (left to right) H.J.M. Watson, Vice-President, Finance; F.A. Hoyle, Vice-President — Manufacturing Services; and P.D. Matthews, Treasurer.

While supportive of the Canadian Institute of Chartered Accountants' efforts to find a method of reporting the effects of changing prices, it is the Corporation's view that the presently recommended supplementary information is very theoretical, complex, costly to prepare and could be confusing to the reader. For these reasons, Stelco is not providing the supplementary information called for by the C.I.C.A.

Consolidated Statement of Income and Retained Earnings

Years ended December 31 (Thousands of Dollars)

	1984	1983
Revenue		
Sales	**$2,401,180**	$2,033,169
Equity income (loss) from corporate joint ventures and partnerships (Note 9)	**11,808**	(575)
Income from short-term investments	**13,671**	7,647
	2,426,659	2,040,241
Expense		
Cost of sales, exclusive of the following items	**2,072,351**	1,808,365
Administrative and selling	**128,653**	121,563
Research and development	**8,377**	8,172
Depreciation	**111,483**	103,824
Interest on long-term debt	**58,907**	61,045
Other interest	**259**	1,889
Income taxes (Note 5) – current	**14,976**	5,641
– deferred	**(16,627)**	(56,018)
	2,378,379	2,054,481
Income (Loss) before extraordinary items	**48,280**	(14,240)
Extraordinary items net of taxes (Note 4)	**(51,560)**	–
Net Income (Loss)	**(3,280)**	(14,240)
Retained Earnings at beginning of year	**681,648**	780,731
Preferred Shares Purchased and Cancelled (net of acquisition costs – Note 14)	**–**	(4)
	678,368	766,487
Dividends (Note 14)	**85,810**	80,991
Expenses related to issue of capital stock (after deducting income taxes: 1984 – $1,878; 1983 – $3,345)	**2,161**	3,848
Retained Earnings at end of year	**$ 590,397**	$ 681,648
Income (Loss) per common share (Note 1)		
Before extraordinary items	**$ (.12)**	$ (2.32)
– fully diluted	**N/A**	N/A
After extraordinary items	**$ (1.69)**	$ (2.32)
– fully diluted	**N/A**	N/A

Consolidated Statement of Financial Position

At December 31 (Thousands of Dollars)

	1984	1983
Current Assets		
Cash	$ 6,130	$ 11,673
Short-term investments, at cost (approximates market value)	131,342	89,072
Accounts receivable	310,440	286,435
Inventories (Note 6)	748,768	670,632
Prepaid expenses	4,680	2,949
	1,201,360	1,060,761
Current Liabilities		
Accounts payable and accrued	257,013	295,276
Income and other taxes	43,708	36,218
Cash dividends payable	21,646	20,287
Long-term debt due within one year (Note 13)	25,174	16,687
	347,541	368,468
Working Capital	853,819	692,293
Other Assets		
Fixed assets (Note 7)	1,484,350	1,624,975
Long-term intercorporate investments (Note 9)	65,479	78,103
Deferred foreign exchange losses (Note 2)	45,966	—
Unamortized long-term debt issue expense	5,785	5,655
	1,601,580	1,708,733
Total Investment	2,455,399	2,401,026
Other Liabilities		
Provision for discontinuance of operations (Note 4)	25,132	—
Provision for blast furnace relines—beyond one year	60,760	34,618
Long-term debt (Note 13)	555,200	509,908
Deferred income taxes	250,626	291,838
	891,718	836,364
Shareholders' Equity	$1,563,681	$1,564,662
Derived from:		
Capital Stock (Note 14)		
Preferred shares	$ 582,152	$ 583,691
Common shares and warrants	390,990	299,169
Stock dividend to be issued	142	154
Retained Earnings	590,397	681,648
	$1,563,681	$1,564,662

On behalf of the Board:

J.P. Gordon
Director

J.D. Allan
Director

Consolidated Statement of Cash Flow

Years ended December 31 (Thousands of Dollars)

	1984	1983
Cash from (used by) Operations		
Income (loss) before extraordinary items	**$ 48,280**	$ (14,240)
Remitted (Unremitted) equity income	**(9,062)**	3,524
Depreciation	**111,483**	103,824
Increase in provision for blast furnace relines	**26,142**	10,481
Deferred income taxes	**(16,627)**	(56,018)
Sale of tax rights (Note 10)	**5,697**	—
Expenditures for fixed assets – net	**(34,824)**	(41,782)
Recognition of investment tax credits (Note 7)	**7,500**	—
Long-term intercorporate investments – net	**2,386**	(3,093)
Changes in operating elements of working capital (see below)	**(134,645)**	63,584
Other – net	**3,121**	906
Net cash from (used by) Operations	**9,451**	67,186
Cash from (used by) Financing Activities		
Proceeds from sale and leaseback of fixed assets (Note 8)	**50,000**	—
Net proceeds from issue of common shares and warrants (Note 14)	**87,174**	146,674
Reduction of notes payable	**—**	(36,934)
Reduction of long-term debt – net	**(23,588)**	(24,306)
Purchase of preferred shares (Note 14)	**(1,539)**	(1,800)
Net cash from (used by) Financing Activities	**112,047**	83,634
Other sources (uses) of Cash		
Cash dividends paid	**(83,853)**	(80,035)
Payments related to extraordinary items	**(918)**	—
	(84,771)	(80,035)
Net Increase (Decrease) in Cash	**36,727**	70,785
Cash and Short Term Investments		
Balance at beginning of year	**100,745**	29,960
Balance at end of year	**$137,472**	$100,745

The 1983 data has been reclassified to conform with the cash flow basis now being used. In prior years a consolidated statement of changes in financial position on a working capital basis was presented.

Changes in Operating Elements of Working Capital Providing (Utilizing) Cash		
Accounts receivable	**$ (24,005)**	$(23,714)
Inventories	**(78,136)**	19,807
Prepaid expenses	**(1,731)**	122
Accounts payable	**(38,263)**	48,577
Income and other taxes	**7,490**	18,792
Changes in Operating Elements of Working Capital	**$(134,645)**	$ 63,584

Notes to Consolidated Financial Statements

December 31, 1984

1 Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Stelco Inc. and its subsidiaries, all of which are wholly owned. Also included are the Corporation's pro-rata portions of the assets, liabilities and expenses of its unincorporated joint ventures. (See Note 9, also see page 29 for listing of Subsidiary Companies and Unincorporated Joint Ventures.)

Corporate joint ventures and partnerships, in all of which the Corporation has an interest of 50% or less, are accounted for by the equity method. (See Note 9, also see page 29 for listing of Corporate Joint Ventures and Partnerships.)

Foreign Currencies

Monetary assets and liabilities originating in foreign currencies are translated at year end exchange rates. All other assets and liabilities originating in foreign currencies are translated at historic rates prevailing when the assets were acquired or the liabilities incurred. Income and expense items, other than those related to assets and liabilities translated at historic rates, are translated at average rates prevailing during the year.

Unrealized gains or losses resulting from the translation of long-term debt at year end exchange rates are deferred and amortized over the remaining life of the debt. All other gains or losses resulting from foreign currency translations are reflected in the Consolidated Statement of Income (See Note 2).

Inventories

Inventories are valued at the lowest of cost, replacement cost and net realizable value. Physical quantities are normally confirmed once a year by count and for certain raw materials by aerial survey.

Fixed Assets and Depreciation

Fixed assets are recorded at historical cost less investment tax credits (See Note 2) and include construction in progress. Depreciation is provided using the straight-line method applied to the cost of the assets at rates based on their estimated useful life and beginning from the point when production commences. Construction in progress on which no depreciation has been recorded amounted to $70.0 million ($62.0 million at December 31, 1983). The following annual depreciation rates are in effect:

Buildings	$2\frac{1}{2}$ to 5%
Equipment	6 to $7\frac{1}{2}$%
Automotive and mobile equipment	10 to 20%
Raw material plants and properties	$4\frac{1}{2}$ to 5%

Research and Development

Expenditures for research and development are expensed as incurred.

Interest

The interest cost of financing both working capital and capital expenditures is expensed as incurred.

Income Taxes

The Corporation provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the financial statements. Deferred income tax provisions result from timing differences in the recognition of income and expense for income tax and financial statement purposes. Investment tax credits are recorded using the cost reduction approach when there is reasonable assurance that such credits will ultimately be realized. Current and future income is affected to the extent that the cost of certain assets for depreciation purposes has been reduced by the investment tax credit resulting from the acquisition of such assets (See Note 2).

Income Per Common Share

Income (loss) per common share both before and after extraordinary items are computed on the basis of their respective income (loss) for the year, less prescribed dividends on the preferred shares, divided by the weighted average of total Series A and Series B Convertible Common Shares outstanding during the year. Since the effect is antidilutive in 1984 and 1983, fully diluted income per common share both before and after extraordinary items has not been shown.

2 Changes in Accounting Policies

Foreign Currencies

Effective January 1, 1984 the Corporation changed its method of accounting for foreign currencies by adopting prospectively the revised recommendations of the Canadian Institute of Chartered Accountants (C.I.C.A.) relating to foreign currency translations (See Note 1, Foreign Currencies). The only material difference in policy is that in 1983 and prior, long-term debt was converted at historical exchange rates whereas such debt in 1984 is converted at the rate prevailing at the year end. Had the former method of accounting for foreign currencies been continued, there would have been no material effect on the consolidated income for 1984 both before and after extraordinary items.

Investment Tax Credits

Effective January 1, 1984 the Corporation changed its method of accounting for investment tax credits by adopting prospectively the new recommendations of the C.I.C.A. relating to investment tax credits (See Note 1, Income Taxes). Previously the Corporation recorded investment tax credits by the "flow-through" method which recognized such credits in the year in which they were claimed for tax purposes by a reduction in income taxes. Had the former method of accounting for investment tax credits been continued, consolidated income in 1984 both before and after extraordinary items would have increased by $8.0 million as a result of a reduction in income taxes offset by a slightly higher depreciation charge.

Notes to Consolidated Financial Statements (continued)

December 31, 1984

3 Segmented Information

The Corporation operates exclusively as a vertically integrated producer of a wide range of steel products which is its only line of business and dominant segment. Export sales of domestic production to foreign countries amounted to $522 million in 1984 ($417 million in 1983).

4 Extraordinary Items

During the year the Corporation decided to shut down or cease developing a number of facilities which are no longer economic to operate or develop. The facilities involved are: the Griffith Mine, Stelco Fabricators Ltd., Durastal Installations Limitée, Canada Works and the Corporation's interest in the Elk River Coal Project. The net costs related to these shutdowns are estimated to be:

	1984 (in thousands)
Write Down of Facilities to Estimated Recoverable Values	
Write down of facilities in the year	$ 6,751
Provision for write down of fixed assets (Note 7)	47,163
	53,914
Other Shutdown Costs(1)	
Recognized in the year	893
Provision for discontinuance of operations	
– current(2)	588
– long-term	25,132
	26,613
Total before taxes recovery	80,527
Less estimated taxes recovery	28,967
Extraordinary items net of taxes	$51,560

(1) Includes estimated amounts for contractual obligations, demolition, reclamation and employment related costs.

(2) Included on Consolidated Statement of Financial Position in Accounts payable and accrued.

5 Components of Consolidated Income Taxes

	1984 (in thousands)	1983 (in thousands)
Provision (recovery) based on combined basic Canadian federal and provincial income tax rates (1984–51%, 1983–50%)	$ 23,781	$ (32,308)
Non-taxed equity income	(2,073)	(1,137)
Mining incentives	(15,852)	(10,872)
Inventory allowance	(8,609)	(9,006)
Other	1,102	2,946
Income taxes	$ (1,651)	$ (50,377)

6 Inventories

	1984 (in thousands)	1983 (in thousands)
Raw materials and supplies	$ 354,698	$ 295,884
Finished and semi-finished products	394,070	374,748
	$ 748,768	$ 670,632

7 Fixed Assets

	1984 (in thousands)	1983 (in thousands)
Raw material plants and properties, at cost	$ 267,343*	$ 273,107
Manufacturing plants and properties, at cost	2,586,635*	2,614,866
	2,853,978	2,887,973
Manufacturing plants and properties under capital lease (Note 8)	50,000	—
Less deferred gain (Note 8)	10,252	—
	39,748	—
	2,893,726	2,887,973
Less accumulated depreciation	1,362,213	1,262,998
	1,531,513	1,624,975
Provision for write-down (Note 4)	47,163	—
	$1,484,350	$1,624,975

* Net of investment tax credits (See Note 2).

8 Sale and Leaseback of Assets

In 1984 the Corporation sold at their fair market value of $50 million certain operating assets associated with the slab caster located at Lake Erie Works. A $10.3 million gain arising from this sale has been deferred and will be amortized over 15 years commencing in 1985. Effective January 1, 1985, these assets were leased back to the Corporation for a period of 15 years at an annual rent of $6.7 million per year. The Corporation has an option to reacquire the assets at January 1, 1995 for $25 million (See Notes 7 and 13).

9 Long-term Intercorporate Investments and Related Commitments

(a) Investments

	1984 (in thousands)	1983 (in thousands)
Corporate joint ventures and partnerships, at equity	**$ 55,260**	$ 67,861
Portfolio investments, at cost (quoted market value 1984 – $20.1 million, 1983—$17.8 million)	**10,219**	10,242
	$ 65,479	$ 78,103

(b) Joint Ventures and Partnerships

Substantially, the joint ventures and partnerships are an integral part of steel operations and exist to provide raw materials, certain finishing operations and some administrative services. Accordingly, to avoid duplication in the disclosure of sales, such transactions between the Corporation and the joint ventures and partnerships are accounted for in the Consolidated Statement of Income by:

(i) Including the cost of materials, operations and services provided by the joint ventures and partnerships in "Cost of sales" or "Administrative" expense as appropriate.

(ii) Disclosing the Corporation's share of the annual income (loss) from corporate joint ventures and partnerships as a separate item of "Revenue". (During the year a corporate joint venture sold an operating division and as a result the Corporation's share of this corporate joint venture's equity increased by $1.2 million which is included in "Revenue").

The following is a summary of the Corporation's proportionate share of the financial position of the joint ventures and partnerships:

	Unincorporated Joint Ventures	Corporate Joint Ventures and Partnerships	1984 (in thousands) Total	1983 (in thousands) Total
Assets	**$64,079**	**$191,905**	**$255,984**	$262,962
Liabilities	**9,442**	**136,645**	**146,087**	130,670
Equity	**$54,637**	**$ 55,260**	**$109,897**	$132,292

Included in the liabilities of the corporate joint ventures and partnerships is $100.3 million of long-term debt against which certain assets relating to those entities have been pledged.

(c) Commitments

The Corporation, as a participant in certain of the corporate joint ventures and partnerships, is entitled to receive its proportionate share of coal and iron ore produced and is committed to pay its share of their costs, including minimum charges for principal and interest to cover the servicing of their long-term debt. The Corporation's share of such minimum charges averages US $9 million annually to 1996.

10 Sale of Tax Rights

During the year the Corporation sold rights to claim tax deductions related to $12.2 million of qualified research and development expenditures incurred in the years 1983 and 1984. As a result $5.7 million from this sale has been reflected in deferred income taxes on the Consolidated Statement of Financial Position.

At December 31, 1984 the Corporation's qualified expenditures had eliminated the liability under the Income Tax Act for the special refundable Part VIII tax related to the above.

Prior to October 10, 1984 the Corporation entered into a further agreement to sell the right to claim tax deductions related to anticipated qualified expenditures of $6 million in 1985. This transaction closed January 24, 1985 and has not been reflected in the 1984 financial statements.

Notes to Consolidated Financial Statements (continued)

December 31, 1984

11 Commitments

(a) Capital Programs

The estimated cost to complete capital programs is $440 million which will be spent over a period of three years and includes an estimated amount of $60 million to cover inflation in construction costs and other contingencies. This includes an amount to cover the Hilton Works modernization program which has been approved in principle.

(b) Operating Leases

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year at December 31, 1984 are:

	(in thousands)
1985	**$ 7,422**
1986	**5,489**
1987	**4,870**
1988	**4,791**
1989	**4,790**
Subsequent to 1989	**28,251**
	$55,613

12 Guarantee

In order to assist an unaffiliated corporation with its financial restructuring, Stelco has entered into an agreement to pay the unaffiliated corporation's prime banker up to $15 million in the event of a default under the restructuring. In return for support in this restructuring of the unaffiliated corporation, Stelco has negotiated a steel supply contract, has been granted various forms of security and in the event that the guarantee is enforced has a variety of remedies.

13 Long-term Debt

	1984 (in thousands)	1983 (in thousands)
$5\frac{7}{8}\%$ sinking fund debentures due May 1, 1990	**$ 30,014**	$ 31,062
$9\frac{1}{4}\%$ sinking fund debentures due November 1, 1990	**45,930**	47,704
$10\frac{7}{8}\%$ sinking fund debentures due September 15, 1994	**51,756**	53,237
$9\frac{3}{4}\%$ sinking fund debentures due April 1, 1995	**80,051**	83,944
$10\frac{1}{4}\%$ sinking fund debentures due April 30, 1996	**84,491**	87,729
10% notes due October 15, 1987 (1984—US $7 million, 1983—US $9 million)	**9,276**	10,013
$10\frac{3}{4}\%$ sinking fund/notes due November 20, 1995 (1984—US $92 million, 1983—US $100 million)	**121,146**	102,906
$13\frac{1}{2}\%$ sinking fund debentures due October 1, 2000	**107,710**	110,000
	530,374	526,595
Capital lease (expiring January 1, 2000, imputed interest 10.37% with purchase option of $25 million on January 1, 1995)	**50,000**	—
	580,374	526,595
Less amount due within one year, net of prepayments	**25,174**	16,687
	$ 555,200	$ 509,908

After allowing for prepayments, annual sinking fund and other repayments of debt over the next five years amount to $23.7 million in 1985, $34.1 million in 1986, $34.5 million in 1987, $31.5 million in 1988 and $31.5 million in 1989. Minimum annual capital lease payments for the same five years are $6.7 million per year and include the principal amount due within one year of $1.5 million. Aggregate minimum payments under the capital lease are $91.7 million including imputed interest of $41.7 million.

As a result of the revised recommendations of the C.I.C.A., long-term debt payable in United States funds has been translated at the December 31, 1984 rate of exchange. This translated amount is not necessarily indicative of the amount which will be repaid when the obligations are retired. This method of translation has increased long-term debt by $27.5 million from the result which would have been obtained from the previously used historical rate method. Had this new policy been applied at December 31, 1983, the increase at that time would have been $23.2 million.

14 Capital Stock and Dividends

(a) Under the Canada Business Corporations Act the Corporation is authorized to issue in series unlimited numbers of Preferred Shares and Common Shares without nominal or par value.

(b) Preferred Shares

	1984 Number of Shares	**1984** Stated Capital (in thousands)	1983 Number of Shares	1983 Stated Capital (in thousands)
Outstanding – Series A	**8,000,000**	**$200,000**	8,000,000	$200,000
– Series B	**1,738,250**	**43,456**	1,799,600	44,990
– Convertible Series C	**5,934,554**	**148,364**	5,934,554	148,364
– Series D	**4,213,300**	**105,332**	4,213,500	105,337
– Series E	**3,400,000**	**85,000**	3,400,000	85,000
	23,286,104	**$582,152**	23,347,654	$583,691

Series A

These shares are entitled to a cumulative floating rate dividend, calculated and payable on a quarterly basis. The rate equals the sum of $1\frac{1}{4}$% and one-half the median Canadian bank prime rate charged by certain Canadian chartered banks.

The shares are redeemable on or after May 1, 1980 at $25.75 per share, reducing by $0.1875 annually on May 1, to $25.00 per share.

The shares are retractable at $25.00 per share at the holder's option, on May 1 in each of the years 1987, 1992 and 1997.

Series B

These shares are entitled to a fixed cumulative dividend at the rate of $1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable on or after November 1, 1984 at $26.25 per share, reducing by $0.25 annually on November 1, to $25.00 per share.

On November 1 each year, the Corporation is required to purchase at $25.00 per share 61,350 Series B Preferred Shares, if tendered.

On November 1, 1984, 61,350 shares with a stated capital of $1,533,750 were tendered and purchased for a total consideration of $1,533,750 and were cancelled.

Convertible Series C

These shares are convertible into Series A Convertible Common Shares of the Corporation at any time on or before April 30, 1990, at a conversion price of $33.75 per share, subject to adjustment in certain events. The 5,934,554 shares with a stated capital of $148,363,850 outstanding at December 31, 1984 were convertible at the option of the holders into 4,395,966 Series A Convertible Common Shares.

The shares are entitled to a fixed cumulative dividend at the rate of $1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable at $26.25 per share on and after May 1, 1983 and prior to May 1, 1985, only if the weighted average price at which the Series A Convertible Common Shares traded in a specified period was not less than 125% of the conversion price then in effect. The shares are redeemable on or after May 1, 1985 at $26.25 per share, reducing by $0.25 annually on May 1, to $25.00 per share.

Commencing July 1, 1990, the Corporation is required to make all reasonable efforts to purchase during each calendar quarter, at a price not exceeding $25.00 per share plus unpaid dividends and costs of purchase, 1% of the number of these shares outstanding on April 30, 1990. The resulting annual obligation expires December 31 in each year.

During 1984, no shares were converted into Series A Convertible Common Shares.

Notes to Consolidated Financial Statements (continued)

December 31, 1984

Series D

These shares are entitled to a fixed cumulative dividend at the rate of $2.50 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after November 1, 1985 at $26.00 per share, reducing by $0.20 annually on November 1, to $25.00 per share.

The shares are retractable at the option of the holder on November 1, 1985 and 1990 at a price of $25.00 per share.

The Corporation may elect in 1985 and 1990 to create further series of Preferred Shares ("1985 Series" and "1990 Series") into which the Preferred Shares Series D would be convertible on a share-for-share basis on and after the retraction date and having the same attributes in all material respects as the Preferred Shares Series D except that the dividend rate may be increased effective November 1, 1985 and increased or decreased effective November 1, 1990 and, in either case, the redemption price may be increased and a further non-call period may be provided.

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding $25.00 per share plus costs of purchase:

(i) from January 1, 1981 to December 31, 1985, 22,000 Preferred Shares Series D;
(ii) from January 1, 1986 to December 31, 1990, 0.75% of the number of Preferred Shares Series D outstanding at the close of business on November 1, 1985; and
(iii) commencing January 1, 1991, 1.25% of the number of Preferred Shares Series D outstanding at close of business on November 1, 1990.

This purchase obligation is cumulative only within each calendar year, and would attach equally to shares of the 1985 Series and the 1990 Series as the case may be.

During 1984, 200 shares with a stated capital of $5,000 were purchased for a total consideration of $5,090 and were cancelled. The resulting difference of $90 is included in retained earnings.

Series E

These shares are entitled to a fixed cumulative dividend at the rate of $3.625 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after August 1, 1988 at $26.20 per share, reducing by $0.30 annually on August 1, to $25.00 per share.

The shares are retractable at the option of the holder on August 1, 1988 at a price of $25.00 per share.

The Corporation may elect on or before June 17, 1988 to create a further series of Preferred Shares into which the Preferred Shares Series E would be convertible on a share-for-share basis during a conversion period commencing no later than the retraction date and ending no earlier than six months after the retraction date (subject to prior redemption).

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding $25.00 per share plus costs of purchase:

(i) from October 1, 1982 to September 30, 1988, 17,000 Preferred Shares Series E; and
(ii) commencing October 1, 1988, 1% of the number of Preferred Shares Series E outstanding at the close of business on September 30, 1988.

This purchase obligation is cumulative only within each calendar year. During 1984 no shares were purchased.

(c) Common Shares and Warrants

	1984	1983
Stated Capital (in thousands)	**$ 390,990**	$ 299,169
Outstanding – Series A Convertible Shares	**33,151,217**	29,711,075
– Series B Convertible Shares	**563,405**	616,117
	33,714,622	30,327,192
Outstanding – Common Share Purchase Warrants	**2,699,900**	2,699,950

Series A and Series B

The Convertible Common Shares of each series are voting, convertible into one another on a share-for-share basis and rank equally in all respects except that dividends on the Series B Convertible Common Shares may be payable by way of a stock dividend in Series B Convertible Common Shares in accordance with the conditions attaching to such shares and dividends on the Series A Convertible Common Shares are payable in cash. On March 27, 1984, the Corporation issued 3,100,000 Series A Shares for proceeds of $85,250,000.

Other Convertible Common Shares issued during the year were:

- 36,670 Series A Shares for $742,568 under the Employee Stock Investment Plan (See Note 15).
- 227,082 Series A Shares for $5,219,256 under the Stelco Share Participation Plan (See Note 16).
- 23,760 Series B Shares in payment of stock dividends. Under terms of the issue, certain fractional Series B Shares with a stated capital of $3,427 and equivalent to 132 whole shares were purchased and cancelled.

Warrants

During 1984, 50 Common Share Purchase Warrants were exercised. At December 31, 1984, 2,699,900 Warrants were outstanding with a stated capital of $14,849,450. One whole Warrant entitles the holder to purchase one Series A Share at $30.75 until October 15, 1986.

(d) Dividends

The following dividends were declared.

	1984 (in thousands)	1983 (in thousands)
Preferred Shares		
Series A (per share 1984—$1.79882, 1983—$1.76163)	**$ 14,391**	$ 14,093
Series B (per share 1984—$1.94, 1983—$1.94)	**3,460**	3,580
Convertible Series C (per share 1984—$1.94, 1983—$1.94)	**11,514**	11,514
Series D (per share 1984—$2.50, 1983—$2.50)	**10,533**	10,534
Series E (per share 1984—$3.625, 1983—$3.625)	**12,325**	12,325
	52,223	52,046
Common Shares (per share 1984—$1.00, 1983—$1.00)		
Series A	**32,989**	28,255
Series B (stock dividend)	**598**	690
	33,587	28,945
	$ 85,810	$ 80,991

15 Employee Stock Investment Plan

Under the Corporation's Employee Stock Investment Plan established in 1983, the Corporation is authorized to advance monies to a trustee to be loaned interest free to specified key employees and applied in payment of the subscription price of Series A Convertible Common Shares to be purchased from the Corporation by the trustee on behalf of such employees. The loans are secured by a pledge of the shares to the trustee and are normally repayable within five years of their inception. The Plan provides, on the occurrence of any of certain specified events, for special payments to a participant to discharge his outstanding loans.

In December 1984, $742,568 was advanced under the Plan for the purchase of an aggregate of 36,670 Series A Convertible Common Shares at a price of $20.25 per share, the closing price on The Toronto Stock Exchange on December 7, 1984. At December 31, 1984 the amount of advances outstanding to the trustee under the terms of the plan was $1,985,227.

16 Stelco Share Participation Plan for Salaried Employees

Effective January 1, 1984 the Corporation established a Share Participation Plan for all eligible non-bargaining unit employees. The Plan is funded by the Corporation through quarterly contributions to a trustee. Accumulated monthly entitlements are invested quarterly by the trustee in Series A Convertible Common Shares purchased from the Corporation at the closing sale price on the Toronto Stock Exchange on the third last working day of each calendar quarter.

This plan has been deemed an Employee Profit Sharing Plan by the federal and provincial tax authorities under the respective income tax acts and is reflected on the Consolidated Statement of Income and Retained Earnings in Administrative and selling.

During 1984, 227,082 Series A Convertible Common Shares were issued under this Plan for total proceeds of $5,219,256. Details of the shares issued each quarter are as follows:

	Number	Price	Amount
March	47,492	$ 26.50	$1,258,538
June	59,830	22.375	1,338,696
September	55,973	23.625	1,322,362
December	63,787	20.375	1,299,660
	227,082		$5,219,256

17 Retirement Plans

Pension costs charged against income under the Corporation's pension plans include payments made to trust funds for current and past service requirements as determined by an independent actuary. Unfunded past service costs in respect of pensions ultimately payable to the present employees are estimated to be $214 million at December 31, 1984. This amount is being funded over periods not exceeding fifteen years.

Notes to Consolidated Financial Statements (continued)

December 31, 1984

18 Related Party Transactions

Related party transactions occurring during the years 1984 and 1983 and balances outstanding at December 31 both resulting from transactions with various entities recorded as long-term intercorporate investments (See Note 9) are as follows:

	1984 (in thousands)	1983 (in thousands)
(a) During the year		
Materials and services purchased	**$ 116,047**	$ 119,101
Capital advances (repayments)	**(1,156)**	2,394
Dividends and interest received	**2,752**	3,073
Advances (repayments) on demand notes	**(100)**	900
(b) At December 31		
Capital advances	**$ 53,225**	$ 54,381
Accounts receivable	**59**	6,194
Demand notes receivable	**7,100**	7,200

The corporate joint ventures and partnerships, which are accounted for on an equity basis, exist to provide certain raw materials, finishing operations and administrative services (See also Note 9).

19 Subsequent Event

Caster Fabrication and Loan Agreements

On December 21, 1984 the Corporation issued a letter of intent to Mitsui & Co. Ltd., Tokyo and Mitsui & Co. (Canada) Ltd. and signed by all parties signifying a willingness to enter into further negotiations leading to the execution and delivery of a loan agreement and a purchase contract. Negotiations on the purchase contract concern a continuous slab casting machine and a continuous slab/bloom casting machine to be installed at Hilton Works. The loan agreement negotiations involve financing various elements of the Hilton Works modernization program included in the Corporation's Capital Programs (See Note 11(a)).

Negotiations are continuing, but no formal agreements were reached by February 8, 1985.

Auditors' Report

THORNE
RIDDELL
Chartered Accountants

To The Shareholders
Stelco Inc.

We have examined the consolidated statement of financial position of Stelco Inc. at December 31, 1984 and the consolidated statements of income and retained earnings and cash flow for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation at December 31, 1984 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied, except for the changes in the method of accounting for foreign currencies and for investment tax credits as explained in note 2, on a basis consistent with that of the preceding year.

Thorne Riddell

Toronto, Canada
February 8, 1985

Directors and Officers

Directors

*J.D. Allan, Toronto
President and Chief Executive Officer of the Corporation

*‡Alex E. Barron, Toronto
Vice-Chairman, Canadian General Investments Limited

*A. Jean de Grandpré, O.C., Q.C., Montreal
Chairman and Chief Executive Officer, Bell Canada Enterprises Inc.

*‡Thomas M. Galt, Toronto
Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada

*J. Peter Gordon, O.C., Toronto
Chairman of the Board of the Corporation

J. Howard Macdonald, Calgary
Chairman and Chief Executive Officer, Dome Petroleum Limited

*A.J. MacIntosh, Q.C., Toronto
Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors

†‡William F. McLean, Toronto
Corporate Director

J. Dean Muncaster, Toronto
President and Chief Executive Officer, Canadian Tire Corporation, Limited

†Lucien G. Rolland, Montreal
Chairman and Chief Executive Officer, Rolland inc.

Henry G. Thode, C.C., Ph.D., F.R.S., Hamilton
Professor Emeritus, McMaster University

†Kenneth A. White, C.D., Oakville
Corporate Director

Marshall M. Williams, Calgary
Chairman, President and Chief Executive Officer, TransAlta Utilities Corporation

L.R. Wilson, Toronto
President and Chief Executive Officer, Redpath Industries Limited

†*William H. Young, Hamilton
Chairman, The Hamilton Group Limited

*Member — Executive Committee
†Member — Audit Committee
‡Member — Compensation and Manpower Resources Committee

Executive Officers

J.P. Gordon
Chairman of the Board

J.D. Allan
President and Chief Executive Officer

G.W.R. Bowlby
Group Vice President

R.E. Heneault
Group Vice President

J.E. Hood
Group Vice President

H.J.M. Watson
Vice-President, Finance

J.W. Younger, Q.C.
Vice-President, Secretary and General Counsel

Vice-Presidents and Other Officers

W.C. Ashcroft
Assistant Treasurer

G. Binnie
Comptroller

K. Coles
Vice-President — Manufacturing

W.A. Darby
Assistant Comptroller — Corporate Accounting

F.A. Hoyle
Vice-President — Manufacturing Services

L.M. Killaly
Assistant Secretary

L.C. McLean
Vice-President — Quality and Technology

P.D. Matthews
Treasurer

A.G. Northcott
Assistant Comptroller — Works Accounting

D.A. Woodward
Vice-President — Sales

Corporate Directory

Head Office
Royal Trust Tower,
Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4.

General Offices
Hamilton, Ontario
Montreal, Quebec — Eastern Region
Edmonton, Alberta — Western Region

Sales Offices
Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Quebec, Quebec
Saint John, New Brunswick
St. John's, Newfoundland
Sudbury, Ontario
Windsor, Ontario
Winnipeg, Manitoba

Plants

Hamilton, Ontario
Hilton Works
Canada Works
Canadian Drawn Works
Frost Works
Parkdale Works

Beachville, Ontario
Chemical Lime Works

Brantford, Ontario
Brantford Works

Burlington, Ontario
Burlington Works

Gananoque, Ontario
Gananoque Works

Nanticoke, Ontario
Lake Erie Works

Red Lake, Ontario
The Griffith Mine

Toronto, Ontario
Swansea Works

Welland, Ontario
Page-Hersey Works
Welland Tube Works

Contrecoeur, Quebec
McMaster Works

Lachine, Quebec
Dominion Works

Montreal, Quebec
Notre Dame Works
St. Henry Works

Camrose, Alberta
Camrose Works

Edmonton, Alberta
Stelco Edmonton, Steel Works
Stelco Edmonton, Finishing Works

Research Centre
Burlington, Ontario

Subsidiary Companies, wholly owned*
Clôture Frost Inc. — Frost Fence Inc., Montreal, Que.
Stelco Holding Company, Cleveland, Ohio
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky. (Chisholm Mine)
Kanawha Coal Company, Ashford, W. Va. (Madison Mine)
Ontario Eveleth Company, Minneapolis, Minn.
Ontario Hibbing Company, Minneapolis, Minn.
Stelco Erie Corporation Minneapolis, Minn.
Stelco Nederland B.V., Amsterdam, The Netherlands
Stelco S.A., Geneva, Switzerland
Stelco de Argentina, S.A.C.I. y de R., Buenos Aires, Argentina
Stelco de Venezuela, S.R.L., Caracas, Venezuela
Stelco U.S.A. Inc., Troy, Michigan

Unincorporated Joint Ventures*

	% Owned
Wabush Mines, Nfld. & Que.	25.6
Hibbing Taconite Company, Minn.	6.7

Corporate Joint Ventures and Partnerships

	% Owned
Iron Ore	
Tilden Iron Ore Partnership, Mich.	15.6
Erie Mining Company, Minn.	10.0
Eveleth Expansion Company, Minn.	23.5
Ontario Iron Company, Minn.	10.0
Coal	
Mathies Coal Company, Pa.	13.3
Beckley Coal Mining Company, W. Va.	12.5
Olga Coal Company, W. Va.	10.0
Other	
Baycoat Limited, Ont.	50.0
Canada Systems Group Limited, Ont.	25.0
Torcad Limited, Ont.	50.0
Fers et Métaux Recyclés Ltée, Que.	50.0
Arnaud Railway Company, Que.	25.6
Wabush Lake Railway Company, Limited, Nfld.	25.6
Knoll Lake Minerals Limited, Nfld.	14.9
Northern Land Company Limited, Nfld.	12.8
Twin Falls Power Corporation, Limited, Nfld.	4.4

Registrar and Transfer Agent
National Victoria and Grey Trust Company, Toronto, Montreal, Hamilton, Winnipeg, Edmonton and Vancouver; and its agent Royal Trust Company in Halifax and Regina.

*Excludes inactive Subsidiary Companies and inactive Unincorporated Joint Ventures.

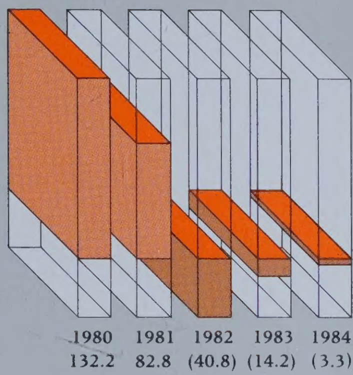
Ten Year Statistical Summary

Dollars in millions except as indicated*		**1984**	1983	1982	1981 (1)	1980	1979	1978	1977	1976	1975
Operations (thousands of net tons)											
Raw steel produced		**5,145**	4,778	4,592	4,454	6,278	5,862	5,533	5,640	5,724	5,396
Total raw steel processed (including purchases)		**5,161**	4,657	4,667	4,996	6,109	6,306	6,199	5,490	5,669	5,263
Steel shipments		**4,004**	3,598	3,575	3,804	4,529	4,553	4,466	3,995	4,028	3,706
Income and Related Data											
Sales	$	**2401.2**	2,033.2	2,020.3	2,173.8	2,228.6	2,091.2	1,775.7	1,444.1	1,359.8	1,201.8
Administrative and selling	$	**128.7**	121.6	129.2	120.3	111.0	98.7	88.5	81.8	75.2	66.2
Depreciation	$	**111.5**	103.8	101.0	93.6	70.3	60.5	56.7	55.1	54.9	51.4
Interest on long-term debt	$	**58.9**	61.0	63.6	65.4	55.3	52.5	52.5	51.4	46.8	24.2
Income taxes	$	**(1.7)**	(50.4)	(64.8)	17.8	39.5	62.0	39.3	1.6	17.0	36.4
Net income (loss)	$	**(3.3)**	(14.2)	(40.8)	82.8	132.2	156.9	111.9	81.9	77.3	82.6
Per common share (2)	*$	**(1.69)**	(2.32)	(3.69)	1.45	4.05	5.74	4.07	3.02	3.13	3.35
– fully diluted	*$	**N/A**	N/A	N/A	N/A	3.88	N/A	N/A	N/A	N/A	N/A
Return on sales	%	**2.0****	(0.7)	(2.0)	3.8	5.9	7.5	6.3	5.7	5.7	6.9
Return on average investment (3)	%	**3.2****	0.7	(0.4)	4.6	6.9	9.1	7.3	6.3	6.7	7.4
Return on average common shareholders' equity (2)	%	**(0.4)****	(7.0)	(9.3)	3.4	9.7	14.7	11.3	8.8	9.5	10.7
Dividends declared – preferred	$	**52.2**	52.0	51.1	47.7	34.0	15.4	11.5	8.2	—	—
– common	$	**33.6**	28.9	24.8	49.5	49.4	49.4	43.2	42.0	42.0	42.0
Per common share	*$	**1.00**	1.00	1.00	2.00	2.00	2.00	1.75	1.70	1.70	1.70
Earnings reinvested in (withdrawn from) the business	$	**(89.1)**	(95.2)	(116.7)	(14.4)	48.8	92.0	57.2	31.7	35.3	40.6
Capital Expenditures	$	**32.4**	44.9	163.2	210.2	191.7	204.0	145.3	144.6	172.5	232.8
Financial Position, year end											
Working capital	$	**853.8**	692.3	649.2	791.4	930.7	617.1	593.6	603.3	457.5	380.1
Fixed assets – net	$	**1484.4**	1,625.0	1,687.5	1,634.9	1,517.3	1,397.4	1,265.7	1,186.1	1,102.0	990.5
Long-term debt	$	**555.2**	509.9	535.0	558.1	581.0	490.4	496.9	501.3	504.4	361.1
Preferred shareholders' equity	$	**582.2**	583.7	585.5	504.2	508.0	233.1	200.0	200.0	—	—
Common shareholders' equity	$	**981.5**	981.0	925.5	1,042.5	1,054.7	1,009.6	917.7	860.3	829.3	793.9
Per common share	*$	**29.11**	32.35	37.25	42.07	42.66	40.85	37.13	34.83	33.57	32.14
Employment											
Average number of employees		**20,612**	19,519	22,104	26,263	25,094	25,032	23,712	22,942	22,691	23,192
Total employment costs	$	**870.9**	782.6	799.7	674.6	687.9	641.6	559.0	495.0	459.0	401.9
Employees' average weekly earnings (4)	*$	**663.02**	627.04	574.71	492.25	443.94	408.75	374.98	343.67	320.90	280.85
Number of Common Shareholders, year end		**24,416**	27,072	29,551	32,277	36,040	40,495	38,147	36,408	36,501	37,864

(1) 1981 operations were interrupted by strikes, 125 days at Hilton Works and for various periods at other locations.
(2) After preferred dividends in 1984 to 1977 inclusive. (See Note 1 on page 19 for explanation of computation of net income (loss) per common share.)
(3) After adding back interest on long-term debt (net of tax) to net income (loss).
(4) Excludes the cost of supplementary employment benefits.
** Calculated before deducting extraordinary items of $51.6 million (($1.57) per share).

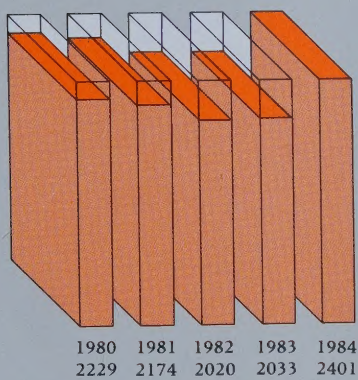
Investor Information

Net Income (loss)



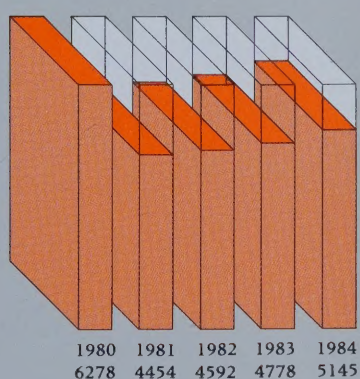
millions of dollars

Sales Revenue



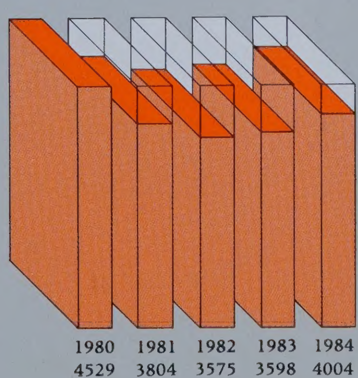
millions of dollars

Raw Steel Produced



thousands of net tons

Steel Shipments



thousands of net tons

Shares

The Corporation's Preferred Shares Series C, D and E, and the Common Shares Series A and B together with the Common Share Purchase Warrants are traded on the Toronto and Montreal Stock Exchanges.

The rights and privileges of each class of shares are set out in the financial statement section of this Annual Report.

At December 31, 1984, there were 24,416 holders of common shares. Approximately 96% of these shareholders had Canadian addresses.

The reported high and low sales prices of Stelco Inc. common shares in 1984 and 1983 are shown in the following table:

	1984		1983	
Quarter	High	Low	High	Low
First	33.37	26.12	28.25	20.75
Second	27.00	22.25	30.25	24.00
Third	24.37	19.62	31.62	25.25
Fourth	23.62	19.25	30.50	25.87

The valuation day value of the Corporation's common shares was $26.75.

Dividends

Dividends on all classes of shares are payable quarterly on February 1, May 1, August 1, and November 1 of each year. The record date of the publicly traded issues is the first business day of the month preceding the dates above.

Dividends have been paid on common shares since 1916. In 1983, 1984 and to date in 1985, common share dividends have been paid at a rate of 25¢ per share per quarter.

Transfer Agent

The Preferred Shares Series C, D and E, and the Common Shares Series A and B are transferable through the Corporation's Transfer Agent, The National Victoria and Grey Trust Company, at their offices in Toronto, Montreal, Hamilton, Winnipeg, Edmonton and Vancouver, and at its Agent, The Royal Trust Company in Halifax and Regina.

Investor Inquiries

Questions and comments regarding Stelco Inc. or any information appearing in the Annual Report, Quarterly Reports or any other corporate publication may be directed to the Vice-President, Secretary and General Counsel.


stelco
75
Canada's foremost
steelmaker
1910-1985